
Implications of the COMESA FTA and Proposed Customs Union: An Empirical Investigation

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Research Background

- COMESA – ‘building block’ of Africa Integration
 - Also fits in the evolving multilateral trading system.
 - COMESA has two vital activities :
 - Its trade liberalisation programme
 - Eventual elimination of all trade barriers between member states
 - Establishment of a common external tariff for non-members
 - Economic integration programme.
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Policy Issues

- Which countries gain and which lose?
 - Should COMESA be a customs union or free trade area
 - Dual memberships to SADC and COMESA.
 - Industry structure changes.
 - Implications for import competitive industries.
 - Welfare implications and impact on poverty reduction.
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Some Facts from the GTAP Database

Aggregation

- COMESA countries show significant variations in economic size, role of trade and factor endowments.
 - exports/GDP of Zimbabwe (31.6%), Zambia (26.2%), Malawi (22.6%) and Uganda (11%).
 - Trade dependence shows scope for trade liberalisation to impact the economies.
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Some Facts from the Database

Aggregation

- Labour share of value added large in COMESA,
 - but most is unskilled, income poverty alleviation possible.
 - Primary sector accounts on average 28% of output in the five COMESA countries.
 - Benefits/losses from the FTA and customs union dependent on the initial conditions.
 - Significant trade barriers in COMESA.
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COMESA FTA: The Simulation

- Using GTAP and the database aggregation, two (short- and long-run) simulations were carried out.
 - SR: all intra-COMESA import tariffs eliminated with external tariffs towards non-COMESA imports unchanged.
 - LR: implications of the FTA analysed assuming that capital, natural resources and land quantities change.
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COMESA FTA: Short Run Macro and Trade Performance Results



	% Deviation					US\$ million	
	Real GDP	Terms of Trade	GDP Deflator	Import Volumes	Export Volumes	Trade Balance	Equivalent Variation
MALA	-0.06	-0.15	-0.21	4.36	1.93	-11.98	-1.79
TANZ	0.12	1.47	1.56	2.94	1.84	-25.51	28.24
ZAMB	0.14	0.82	1.03	1.47	0.16	-3.39	14.16
ZIMB	0.25	0.2	0.22	2.73	1.76	-38.53	27.44
UGAN	0.01	0.41	0.53	0.47	-0.16	-3.3	4.95



COMESA FTA: Long Run Macro and Trade Results

	% Deviation					US\$ million	
	Real GDP	Terms of Trade	GDP Deflator	Import Volumes	Export Volumes	Trade Balance	Equivalent Variation
MALA	0.06	-0.19	-0.3	4.36	2.27	-10.16	0.66
TANZ	1.32	1.11	1.17	3.77	3.72	-25.86	92.67
ZAMB	0.99	0.43	0.77	2.46	2.3	6.42	38.63
ZIMB	0.83	0.11	-0.05	2.86	2.99	-13.11	55.16
UGAN	0.18	0.27	0.33	0.48	0.41	-0.2	13.19

Implications of Industry Outputs of COMESA FTA: Short Run

	MALA	TANZ	ZAMB	ZIMB	UGAN
Grain	0.09	-0.65	0.07	0.14	0.66
VegFruit	0.2	-1.28	-0.05	0.15	0.05
OthCrops	-0.47	2.07	-0.79	-3.46	-1.05
Livestock	1.65	-0.47	0.14	0.03	0.06
ForFish	-0.1	-0.02	0.28	-0.4	0.03
Mining	0.26	-0.8	-1.2	-0.48	-0.19
FoodMnfcs	0.54	-0.79	0.22	-0.24	1.47
BevTobac	-0.88	-0.19	0.22	1.83	-0.02
TexLeath	-0.86	-1.82	0.72	2.53	-0.81
WoodPap	0.92	-0.59	1.34	0.57	-0.22
PetMin	-0.55	-0.21	1.03	-0.13	-0.04
Chemicals	-0.81	-1.34	4.13	7.56	11.96
BasicMetal	0.76	2.63	-1.89	-2.04	-0.79
FabrMetals	6.38	18.58	8.82	3.66	1.84
OthMnfcs	-0.34	-2.35	-0.56	0.28	-0.38

Implications of Industry Outputs of COMESA FTA: Long Run

	MALA	TANZ	ZAMB	ZIMB	UGAN
Grain	0.13	-0.1	0.05	-0.14	0.74
VegFruit	0.32	-0.5	0.22	-0.37	0.14
OthCrops	-0.24	3.01	-0.53	-4.11	-0.73
Livestock	1.63	0.43	0.48	0.28	0.14
ForFish	-0.01	1.23	1.01	0.38	0.25
Mining	0.42	0.58	0.58	0.85	0.29
FoodMnfcs	0.64	0.03	0.56	0.14	1.64
BevTobac	-0.8	0.76	0.64	2.23	0.16
TexLeath	-0.51	0.26	1.4	4.15	-0.55
WoodPap	1.16	1.24	1.87	2.16	0.14
PetMin	-0.39	1.62	2.19	0.71	0.38
Chemicals	-0.61	0.45	4.82	9.61	12.55
BasicMetal	1.1	5.72	0.76	0.11	-0.03
FabrMetals	6.59	23.22	9.95	6.52	2.54
OthMnfcs	-0.21	-0.25	0.74	0.99	0.07

Implications of Industry Outputs of COMESA FTA

- ❑ Most manufacturing sectors contract in the SR.
 - ❑ Fabricated metals emerges as key in the SR and LR.
 - Possible with external tariffs for non-COMESA imports.
 - ❑ Overall, potential exists for COMESA countries to witness some form of structural changes.
 - ❑ Argument about given countries' manufacturing sectors being swamped due to FTA need to be taken to a more disaggregated level.
 - ❑ Similarly, different sectors within the primary category respond differently.
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Welfare Implications of COMESA FTA

	SHORT RUN (US\$ million)				LONG RUN (US\$ million)				
	Alloc. Eff.	TOT	IS	Total	Alloc. Eff.	Endow	TOT	IS	Total
MALA	-1.8	-0.9	0.9	-1.8	-1.9	2.8	-1.3	1	0.7
TANZ	7.8	16.4	4	28.2	12.7	65.4	12.6	2	92.7
ZAMB	5.8	9.1	-0.7	14.2	9.2	25.1	4.8	-0.4	38.6
ZIMB	20.9	4.9	1.5	27.4	23.3	29.1	2.8	-0.1	55.2
UGAN	0.6	3	1.3	5	0.7	10	2	0.5	13.2

Trade Creation vs Trade Diversion under the COMESA FTA

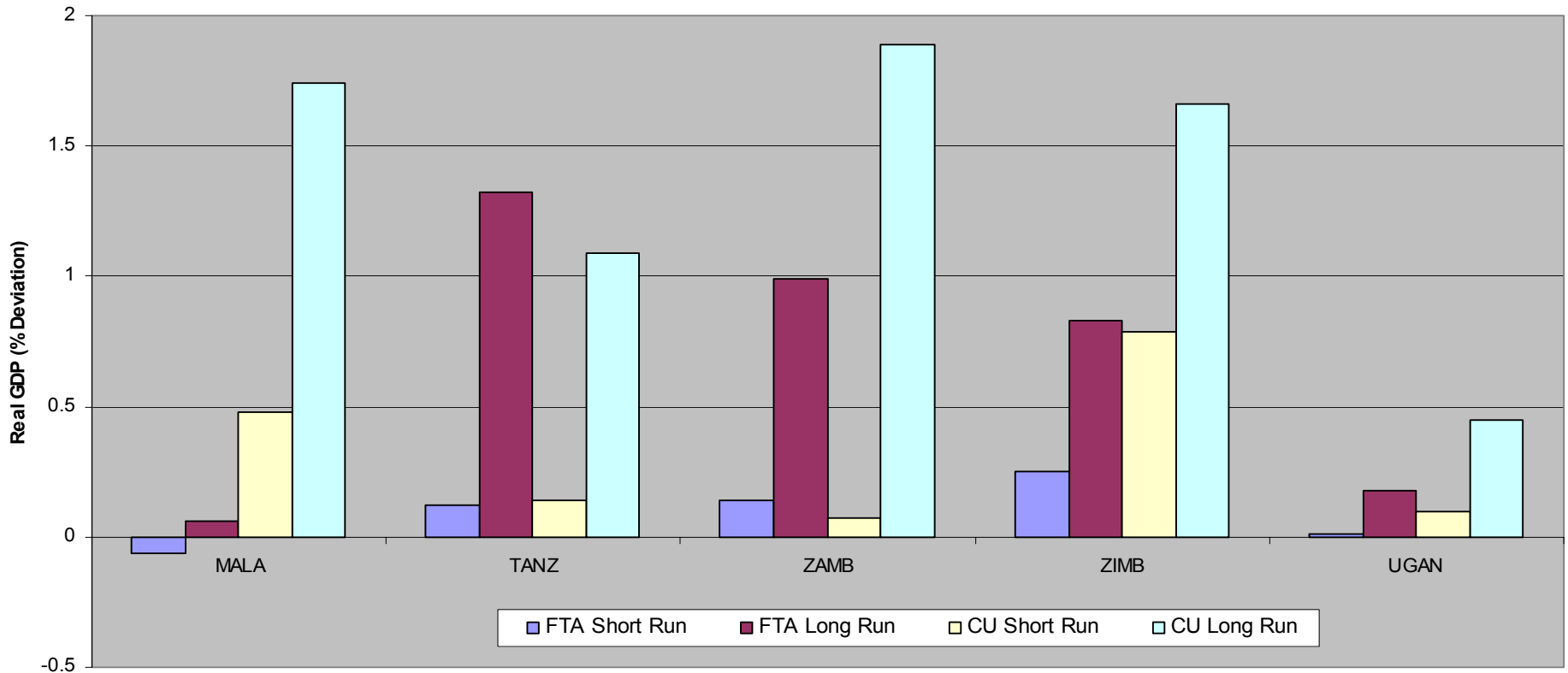
	Short Run (US\$ million)			Long Run (US\$ million)		
	Trade creation	Trade diversion	Trade expansion	Trade creation	Trade diversion	Trade expansion
Malawi	46.1	-36.3	9.8	47.1	-37.5	9.6
Tanzania	36.6	22.4	59	37.6	40.5	78.1
Zambia	1.1	15.1	16.2	15.8	6.2	22
Zimbabwe	115.5	-56.3	59.2	120.1	-58	62.1
Uganda	-0.1	5.7	5.6	1.6	3.7	5.3
Total	199.2	-49.4	149.8	222.2	-45.1	177.1

COMESA Customs Union: The Simulation Design

- To analyse the implications of the customs union, two simulations were conducted.
 - SR simulation: FTA left in place and then the CET rates were imposed on the COMESA non-member countries imports.
 - LR Simulation: The same experiment was repeated but quantities of capital, land and natural resources were permitted to vary.
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COMESA Customs Union: GDP Implications

COMESA FTA and Custom Union Implications for Real GDP





COMESA Customs Union Implications for Factors Returns

	SR - Short Run					LR - Long Run				
	Land	UnSkLab	SkLab	Capital	NatRes	Land	UnSkLab	SkLab	Capital	NatRes
MALA	0.97	1.6	1.39	1.27	4.73	-0.2	2.94	2.51	-0.22	-0.22
TANZ	0.23	0.85	0.93	0.96	-2.76	-0.3	1.87	1.44	-0.32	-0.32
ZAMB	-2.7	1.22	1.47	1.05	-1.35	-0.9	2.59	2.82	-0.88	-0.88
ZIMB	-12.2	3.08	2.94	3.39	-2.65	1.84	3.49	3.43	1.84	1.84
UGAN	-1.29	0.01	0.66	0.65	0.66	-0.1	0.39	0.8	-0.06	-0.06

SR COMESA Customs Union

Implications of Industries' Output



	MALA	TANZ	ZAMB	ZIMB	UGAN
Grain	0.16	-1.62	-0.31	-2.31	-2.99
VegFruit	-1.2	-2.01	-0.99	-2.57	-0.05
OthCrops	-1.71	2.22	-1.15	-4.59	-0.12
Livestock	12.04	-1.09	-0.04	0.23	0.16
ForFish	0.21	-0.96	0.14	-1.04	0.08
Mining	1.55	2.1	-4.24	-0.95	-0.31
FoodMnfcs	1.13	-0.17	0.29	0.4	3.57
BevTobac	-3.42	1.11	-0.02	0.33	1.02
TexLeath	-7.9	7.22	3.62	0.18	6.82
WoodPap	-1.55	-6.2	0.13	-1.1	1.4
PetMin	3.94	-1.35	3.68	2.6	-4.59
Chemicals	1.77	-0.52	14.06	10.5	27.23
BasicMetal	-12.25	-3.97	-0.7	7.77	-0.63
FabrMetals	-22.46	-15.33	-16.8	-18.22	-20.18
OthMnfcs	0.28	24.82	1.39	3.1	1.44
Constr	11.56	2.87	3.46	8.72	2.15
CGDS	40.57	10.65	17.25	13.75	3.52

LR COMESA Customs Union

Implications of Industries' Output



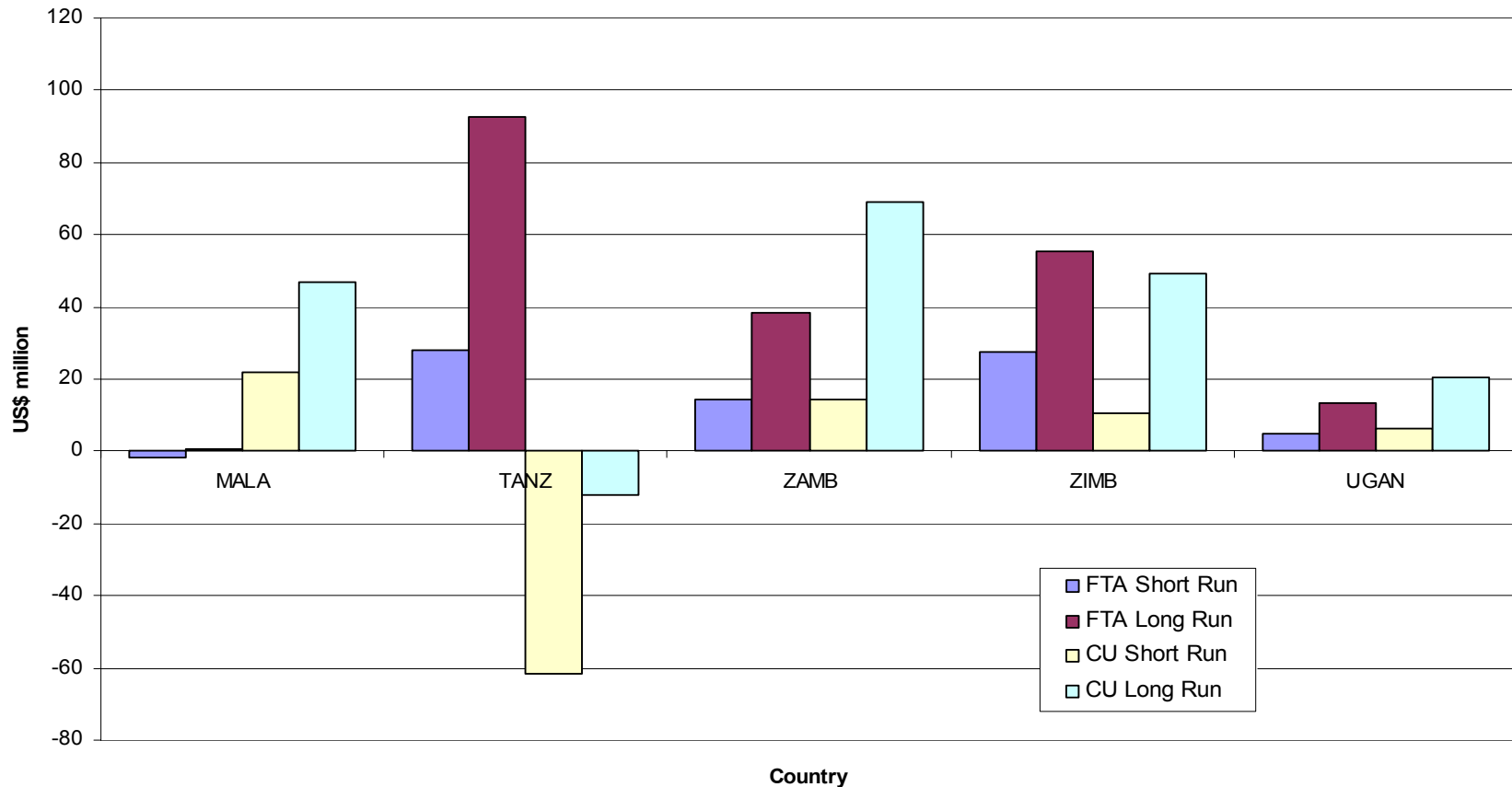
	MALA	TANZ	ZAMB	ZIMB	UGAN
Grain	0.49	-1.2	0.06	-2.86	-2.88
VegFruit	-0.33	-1.51	-0.41	-3.23	0.07
OthCrops	0.2	2.91	-0.49	-5.24	0.28
Livestock	11.97	-0.43	0.7	0.67	0.29
ForFish	1.3	-0.15	1.65	0.03	0.49
Mining	3.85	3.24	-0.92	0.79	0.72
FoodMnfcs	2.08	0.5	1.02	1.05	3.98
BevTobac	-2.38	1.88	1.01	0.91	1.32
TexLeath	-4.64	9.09	5.24	2.41	7.91
WoodPap	0.54	-4.76	2.29	0.4	2.16
PetMin	5.6	0.15	5.99	3.97	-3.72
Chemicals	3.88	1.01	16.32	11.83	28.19
BasicMetal	-9.35	-1.71	4.12	12.04	1.02
FabrMetals	-20.59	-13.33	-14.75	-15.66	-18.86
OthMnfcs	1.6	27.51	3.7	4.46	2.39
Constr	11.9	4.06	4.81	8.96	2.39
CGDS	37.69	11.39	16.86	13.46	3.48

COMESA Customs Union Implications of Industries' Output

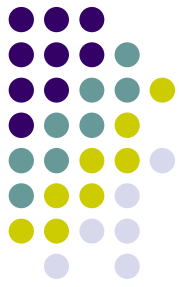
- Most countries protect the primary sectors. Since the CET for this sector has been agreed at 5%, this explains overall declines.
 - In the LR, manufacturing sectors' value added is mostly positive though the magnitudes of the positivism appear not to be significant in some cases.
 - A good analysis is to consider the disaggregation of the broad manufacturing sector to understand the implications for different economies.
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Total Welfare Effects of COMESA FTA and Customs Union

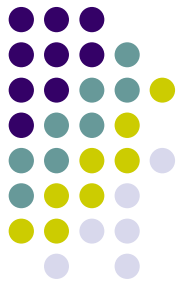
Total Welfare Effects of COMESA FTA and Custom Union



COMESA Customs Union: Trade Creation vs Trade Diversion



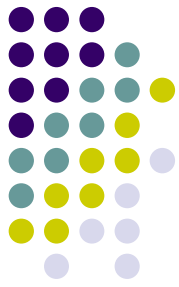
	Short Run (US\$ million)			Long Run (US\$ million)		
	Trade creation	Trade diversion	Trade expansion	Trade creation	Trade diversion	Trade expansion
Malawi	21.7	17.5	39.2	22.8	14.5	37.3
Tanzania	23.6	-32.8	-9.2	24.6	-21.2	3.4
Zambia	12.4	9.6	22	13.9	20.7	34.6
Zimbabwe	69.3	8	77.3	72.5	2	74.5
Uganda	1.8	0	1.8	1.9	-1.8	0.1
Total	128.8	2.3	131.1	135.7	14.2	149.9



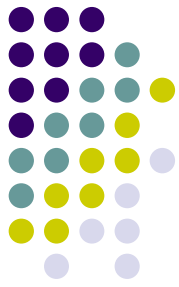
Key findings on the FTA

- Tanzania could have benefited from COMESA.
- Trade arrangement with potential to reduce poverty.
- De-industrialisation not a foregone conclusion.
- Different sub-sectors respond differently in spite of similar structures at sectoral level.
- FTA benefits all in terms of welfare.
- Overall trade expansion occurs.

Key findings on the customs union



- All countries except Tanzania benefit in real incomes terms.
- Trade liberalisation an option for developing long term poverty reduction strategy.
- De-industrialisation not a severe problem.
- Transition from the FTA to customs union require more time.
- Welfare gains occur under a customs union.
- Overall trade expansion occurs.



Conclusions

- COMESA is better of with free trade.
- The customs union must be preferred to the FTA.
- Trade diversion not significant to take welfare gains away.